

# Summary of Legislation

## **SB 143 (Sen. Van Tassell) INSURANCE FINANCIAL REQUIREMENTS** **House Sponsor Rep. Kiser**

### **Background of Legislation**

- ☐ This legislation amends unrelated sections of the insurance code dealing with two different financial requirements. The first deals with “credit for reinsurance” and the second increases the investment limitation for cash.

#### ***Reinsurance Credit:***

- ☐ Credit for reinsurance allows a ceding insurer to receive “surplus relief “ for transferring risk to a reinsurer. Surplus relief allows an insurer to improve their financial position with regard to solvency and the ability to pay claims.
- ☐ Utah is the only state yet to have updated its credit for reinsurance statute to be consistent with the National Association of Insurance Commissioners, (NAIC), Model Law.
- ☐ Reinsurance is an interstate and often international transaction. For this reason, it is desirable for Utah’s code to be consistent with the national model law.
- ☐ The Reinsurance Association of America, (RAA), (a non-profit trade association of reinsurers), reviewed the current Utah statute providing recommendations for revisions based on the NAIC model law, with some additional suggested changes.

#### ***Investment Limitation:***

- ☐ The insurance code limits the amount an insurer can invest in any one investment class. The current statute limits investment in “cash” to 5% of assets.
- ☐ SB143 will increase the minimum limit for cash to 10% and in certain cases allow for cash to be held as an asset in amount greater than 10% of assets.

### **Effects and Benefits of Legislation**

#### ***Reinsurance Credit:***

- ☐ Bringing Utah’s “Credit for Reinsurance” statute in line with the NAIC model law will modernize the Utah statute, helping to create consistency and uniformity in its application for Utah insurers and foreign insurers licensed in the state.
- ☐ The SB143 amendments are primarily technical and non-substantive in nature.
- ☐ In some cases the new statute may require new reinsurance contracts to be worded differently then under current law. It is less likely existing reinsurance contracts will require amendment.

***Investment Limitation:***

- ☐ As a practical matter most insurers do not exceed 5% of their assets in cash, because a higher return can be obtained from other investments.
- ☐ Some smaller insurers do surpass 5% of their assets in cash in order to pay claims and other operating expenses. In these cases, unnecessary work on the part of the Insurance Dept. and the insurer is required. From a regulatory solvency perspective, cash is not a concern as it is generally thought to be the safest and most liquid asset.
- ☐ We do not anticipate any opposition to this legislation.

**Support For Legislation**

- ☐ The Utah Commissioner of Insurance supports this bill.
- ☐ This is an Insurance Department bill.
- ☐ We do not anticipate any opposition to the legislation. However we can't be sure an interested constituency won't request changes to the legislation.